

CITY OF CANTON

AUDIT REPORT

DECEMBER 31, 2008

CITY OF CANTON
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Gary L. Larson, CPA

900 Winchester Drive
Pierre, SD 57501
(605) 940-1284
glarsoncpa@pie.midco.net

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

City Commission
City of Canton
Canton, South Dakota

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information and the aggregate discretely presented component unit of the City of Canton, South Dakota as of December 31, 2008, and for the year then ended, and have issued my report thereon dated May 15, 2009. My report was modified because of a scope limitation concerning the component unit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the City's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance

with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. I consider the deficiency described in the accompanying Schedule of Current Audit Findings as Number 2008-01 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

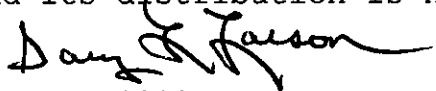
My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I consider item number 2008-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City of Canton's response to the findings identified in my audit is described in the accompanying Schedule of Current Audit Findings. I did not audit the City of Canton's response, and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the governing board and information of the management of the City of Canton, the South Dakota Legislature and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, as required by SDLC 4-11-11 this report is a matter of public record and its distribution is not limited.



May 15, 2009

Gary L. Larson, CPA

900 Winchester Drive
Pierre, SD 57501
(605) 940-1284
glarsoncpa@pie.midco.net

INDEPENDENT AUDITOR'S REPORT

City Commission
City of Canton
Canton, South Dakota

I have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund, the aggregate remaining fund information and the aggregate discretely presented component unit of the City of Canton, South Dakota, as of December 31, 2008, and for the year then ended, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Canton's management. My responsibility is to express opinions on these financial statements based on my audit.

Except as noted in the following paragraph, I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, I do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

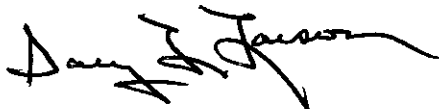
I was unable to obtain audited financial statements supporting the financial activities of the Canton Housing and Redevelopment Commission, nor was I able to satisfy myself as to those financial activities by other auditing procedures. Those financial activities are included in the component unit column and represent 100% of the assets and revenues of the component unit column.

Since I was unable to satisfy myself as to the reported net assets and activities of the component unit, as noted in the previous paragraph, the scope of my work was not sufficient to enable me to express and I do not express, an opinion on the discretely-presented component unit.

In addition, in my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Canton, South Dakota, at December 31, 2008 and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with the Governmental Auditing Standards, I have also issued my report dated May 15, 2009 on my consideration of the City of Canton's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of the internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of my audit.

The City of Canton has not presented the Management's Discussion and Analysis (MD&A) nor the budgetary comparison information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

A handwritten signature in black ink, appearing to read "David J. Jackson", with a stylized flourish at the end.

May 15, 2009

**CITY OF CANTON
STATEMENT OF NET ASSETS
DECEMBER 31, 2008**

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-type Activities	TOTAL
ASSETS:			
Cash and cash equivalents	\$1,213,263	\$1,779,145	\$2,992,408
Investments	491,633	0	491,633
Receivables	164,633	201,189	365,822
Inventories	42,941	144,936	187,877
Other:			
Deposits, restricted	67,416	0	67,416
Investments, restricted	0	44,500	44,500
Notes receivable	0	20,000	20,000
Capital assets:			
Land	304,666	153,216	457,882
Other capital assets, net of depreciation	2,716,542	3,673,836	6,390,378
TOTAL ASSETS	\$5,001,094	\$6,016,822	\$11,017,916
 LIABILITIES:			
Accounts payable	\$42,813	\$72,622	\$115,435
Other current liabilities	53,717	58,599	112,316
Noncurrent liabilities:			
Due within one year	48,883	110,724	159,607
Due in more than one year	54,188	1,148,886	1,203,074
TOTAL LIABILITIES	199,601	1,390,831	1,590,432
 NET ASSETS:			
Invested in capital assets, net of related debt	3,012,020	2,599,834	5,611,854
Restricted for:			
Insurance	67,416	0	67,416
Debt service	0	44,500	44,500
Unrestricted	1,722,057	1,981,657	3,703,714
TOTAL NET ASSETS	4,801,493	4,625,991	9,427,484
 TOTAL LIABILITIES AND NET ASSETS	\$5,001,094	\$6,016,822	\$11,017,916

The accompanying notes to financial statements
are an integral part of this statement.

Component Unit
\$109,178
178,669
1,501
\$9,791
0
0
0
25,811
174,379
<u>\$499,329</u>

\$26,297
0
0
0
<u>26,297</u>

200,190
0
0
<u>272,842</u>
<u>473,032</u>
<u>\$499,329</u>

**CITY OF CANTON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008**

Functions/Programs	Expenses	PROGRAM REVENUES	
		Changes for Services	Operating Grants and Contributions
Governmental Activities:			
General government	\$468,679	\$111,687	\$3,953
Public safety	429,048	7,209	1,473
Public works	689,350	35,181	0
Health and welfare	30,000	740	2,244
Culture and recreation	418,704	28,999	5,574
Conservation and development	51,481	0	0
*Interest on long-term debt	67	0	0
TOTAL GOVERNMENTAL ACTIVITIES	2,087,329	183,816	13,244
Business-type Activities:			
Liquor	831,306	837,477	0
Water	372,437	471,526	0
Sewer	311,742	438,333	0
Airport	103,468	70,862	0
TOTAL BUSINESS-TYPE ACTIVITIES	1,618,953	1,818,198	0
TOTAL PRIMARY GOVERNMENT	\$3,706,282	\$2,002,014	\$13,244
COMPONENT UNIT:			
Housing and Redevelopment Commission	\$330,485	\$64,354	\$282,242

* The City does not have interest expense related to the governmental functions. This amount includes indirect interest on long-term debt.

GENERAL REVENUES:

Property taxes
Sales taxes
State shared revenues
Unrestricted investment earnings
Other general revenues

TRANSFERS

Total General Revenues and Transfers

Change in net assets

Net Assets-beginning,

NET ASSETS-ending

The accompanying notes to financial statements are an integral part of this statement.

NET (EXPENSE) REVENUE AND
CHANGES IN NET ASSETS

Governmental Activities	Business-type Activities	Total	Component Unit
(\$353,039)	\$0	(\$353,039)	\$0
(420,366)	0	(420,366)	0
(654,169)	0	(654,169)	0
(27,016)	0	(27,016)	0
(384,131)	0	(384,131)	0
(51,481)	0	(51,481)	0
(67)	0	(67)	0
(1,890,269)	0	(1,890,269)	0
0	6,171	6,171	0
0	99,089	99,089	0
0	126,591	126,591	0
0	(32,606)	(32,606)	0
0	199,245	199,245	0
(\$1,890,269)	\$199,245	(\$1,691,024)	\$0
\$0	\$0	\$0	\$16,111
1,007,570	0	1,007,570	0
769,174	0	769,174	0
73,049	0	73,049	0
76,229	7,271	83,500	9,627
201,740	49,648	251,388	0
(25,000)	25,000	0	0
2,102,762	81,919	2,184,681	9,627
212,493	281,164	493,657	25,738
4,589,000	4,344,827	8,933,827	447,294
\$4,801,493	\$4,625,991	\$9,427,484	\$473,032

CITY OF CANTON
BALANCE SHEET-GOVERNMENTAL FUNDS
DECEMBER 31, 2008

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$1,197,051	\$16,212	\$1,213,263
Accounts receivable	31,297	102	31,399
Taxes receivable-			
Delinquent	28,122	0	28,122
Special assessments receivable-			
Current	1,109	0	1,109
Deferred	3,327	0	3,327
Due from other governments	100,676	0	100,676
Investments	491,633	0	491,633
Supply inventory	42,941	0	42,941
Deposits	67,416	0	67,416
TOTAL ASSETS	\$1,963,572	\$16,314	\$1,979,886
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$42,813	\$0	\$42,813
Accrued wages	53,717	0	53,717
Deferred revenue	32,558	0	32,558
Total Liabilities	129,088	0	129,088
FUND BALANCES:			
Reserved for deposits	67,416	0	67,416
Reserved for inventory	42,941	0	42,941
Unreserved:		0	0
Designated for capital outlays	743,200	0	743,200
Undesignated	980,927	0	980,927
Undesignated-Special Revenue	0	16,314	16,314
Total Fund Balance	1,834,484	16,314	1,850,798
TOTAL LIABILITIES AND FUND BALANCES	\$1,963,572	\$16,314	\$1,979,886

The accompanying notes to financial statements are an
integral part of this statement.

CITY OF CANTON
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET
ASSETS
DECEMBER 31, 2008

Total Fund Balances-Government Funds	\$1,850,798
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	3,021,208
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Long-term liabilities, including financing leases payable and accrued leave are not due and payable in the current period and therefore are not reported in the funds	(103,071)
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Property taxes and special assessments receivable are reported in the period to be financed by the property tax levy or special assessment for both the governmental funds and the statement of net assets, but in the funds statement the amounts that are not "available" (within a 30 day period) are offset with deferred revenue	<u>32,558</u>
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Net Assets-Governmental Funds	<u><u>\$4,801,493</u></u>
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The accompanying notes to financial statement are an integral part of this statement.

CITY OF CANTON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes-			
General property taxes	\$999,856	\$0	\$999,856
General sales taxes	769,174	0	769,174
Licenses and permits	12,866	0	12,866
Intergovernmental Revenue-			
State grants	7,670	5,574	13,244
State shared revenues	73,050	0	73,050
County shared revenues	6,366	0	6,366
Charges for goods and services-			
General government	98,821	0	98,821
Public safety	4,831	0	4,831
Highways and streets	27,228	0	27,228
Sanitation	7,579	0	7,579
Health	740	0	740
Culture and recreation	28,999	0	28,999
Fines and Forfeits			
Court fines and costs	2,379	0	2,379
Miscellaneous Revenue			
Interest earned	76,229	0	76,229
Contributions	2,821	11,577	14,398
Special assessments	3,304	0	3,304
Other	5,640	0	5,640
Total Revenue	\$2,127,553	\$17,151	\$2,144,704

The accompanying notes to financial statements are an
integral part of this statement.

CITY OF CANTON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	General Fund	Other Governmental Funds	Total Governmental Funds
Expenditures:			
General Government			
Legislative	\$44,803	\$0	\$44,803
Executive	12,424	0	12,424
Financial administration	243,754	0	243,754
Other	134,015	0	134,015
Public Safety			
Police	319,580	0	319,580
Fire	56,568	0	56,568
Public Works			
Highways and streets	504,890	0	504,890
Sanitation	44,598	0	44,598
Health and Welfare			
Health	30,000	0	30,000
Culture and Recreation			
Recreation	92,167	0	92,167
Parks	132,077	0	132,077
Libraries	135,707	16,943	152,650
Conservation and development			
Economic opportunity	51,481	0	51,481
Debt Service	384	0	384
Capital Outlay	250,667	0	250,667
Total Expenditures	<u>2,053,115</u>	<u>16,943</u>	<u>2,070,058</u>
Excess of Revenues Over (Under) Expenditures	74,438	208	74,646
Other Financing Sources (Uses):			
Long-term debt issued	9,505	0	9,505
Sale of City property	59,178	0	59,178
Compensation for damages to City property	116,257	0	116,257
Transfer-out	<u>(25,000)</u>	<u>0</u>	<u>(25,000)</u>
Net Change in Fund Balances	234,378	208	234,586
FUND BALANCE, JANUARY 1, 2008	<u>1,600,106</u>	<u>16,106</u>	<u>1,616,212</u>
FUND BALANCE, DECEMBER 31, 2008	<u><u>\$1,834,484</u></u>	<u><u>\$16,314</u></u>	<u><u>\$1,850,798</u></u>

The accompanying notes to financial statements are an
integral part of this statement.

CITY OF CANTON
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

Net Changes in Fund Balances-Total Governmental Funds	\$234,586
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	114,717
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In the statement of activities, the loss on disposal of assets is reported, whereas in the Governmental Funds, the disposal of fixed assets is not reflected.	(96,557)
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Issuing of financing sources are recorded as revenue in the governmental funds, as opposed to an increase in liabilities in the statement of activities	(9,505)
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Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	317
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Property tax and special assessment revenues are reported in the period to be financed by the property tax levy or special assessment for both the governmental funds and the governmental activities, but in the funds statement, any amounts that are not "available" are offset with deferred revenue.	4,783
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Governmental funds do not reflect the change in accrued leave, but the statement of activities reflects the change in accrued leave through expenditures	<div style="border-top: 1px solid black;">(35,848)</div>
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Change in Nets Assets of Governmental Activities	<div style="border-top: 1px solid black; border-bottom: 3px double black;">\$212,493</div>
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The accompanying notes to financial statements are an integral part of this statement.

CITY OF CANTON
BALANCE SHEET - PROPRIETARY FUNDS
DECEMBER 31, 2008

	<u>ENTERPRISE FUNDS</u>		
	<u>Liquor Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>
ASSETS:			
Current Assets:			
Cash and cash equivalents	\$430,041	\$503,368	\$825,884
Accounts receivable	49,724	78,980	72,337
Inventory	21,333	102,659	15,897
Total Current Assets	<u>501,098</u>	<u>685,007</u>	<u>914,118</u>
 Other Assets:			
Restricted investments	0	14,833	29,667
Note receivable	20,000	0	0
Total Other Assets	<u>20,000</u>	<u>14,833</u>	<u>29,667</u>
 Capital Assets:			
Land	600	12,200	39,659
Buildings	53,553	20,602	65,893
Improvements other than buildings	0	2,519,645	2,307,779
Machinery and equipment	7,987	135,632	155,057
Accumulated Depreciation	(54,679)	(841,390)	(974,136)
Total Capital Assets	<u>7,461</u>	<u>1,846,689</u>	<u>1,594,252</u>
 TOTAL ASSETS	<u><u>\$528,559</u></u>	<u><u>\$2,546,529</u></u>	<u><u>\$2,538,037</u></u>

The accompanying notes to financial statements are an
integral part of this statement.

Airport Fund	Total
\$19,852	\$1,779,145
148	201,189
5,047	144,936
25,047	2,125,270
0	44,500
0	20,000
0	64,500
100,757	153,216
0	140,048
764,865	5,592,289
65,914	364,590
(552,886)	(2,423,091)
378,650	3,827,052
\$403,697	\$6,016,822

CITY OF CANTON
BALANCE SHEET - PROPRIETARY FUNDS
DECEMBER 31, 2008

	ENTERPRISE FUNDS		
	Liquor Fund	Water Fund	Sewer Fund
LIABILITIES			
Current Liabilities:			
Accounts payable	\$62,134	\$5,526	\$4,822
Accrued wages	6,130	5,282	4,906
Customer deposits	0	42,281	0
Bonds payable current:			
Revenue	0	36,908	57,620
Accrued leave-current	3,350	6,423	6,423
Total Current Liabilities	71,614	96,420	73,771
Non-current Liabilities:			
Bonds payable:			
Revenue	0	485,792	646,898
Accrued leave payable	3,350	6,423	6,423
Total Non-current Liabilities	3,350	492,215	653,321
NET ASSETS			
Invested in capital assets, net of related debt	7,461	1,323,989	889,734
Restricted net assets:			
Restricted for debt service	0	14,833	29,667
Unrestricted net assets	446,134	619,072	891,544
Total Net Assets	453,595	1,957,894	1,810,945
TOTAL LIABILITIES AND NET ASSETS	\$528,559	\$2,546,529	\$2,538,037

The accompanying notes to financial statements are an
integral part of this statement.

Airport Fund	Total
\$140	\$72,622
0	16,318
0	42,281
0	94,528
0	16,196
140	241,945
0	1,132,690
0	16,196
0	1,148,886
378,650	2,599,834
0	44,500
24,907	1,981,657
403,557	4,625,991
<u>\$403,697</u>	<u>\$6,016,822</u>

CITY OF CANTON
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	ENTERPRISE FUNDS		
	Liquor Fund	Water Fund	Sewer Fund
OPERATING REVENUES:			
Charges for goods and services securing payment of revenue bonds	\$0	\$471,526	\$438,333
Charges for goods and services	791,522	0	0
Lottery sales	45,955	0	0
Total Operating Revenue	837,477	471,526	438,333
OPERATING EXPENSES:			
Personal services	100,658	91,205	91,867
Other current expense	79,486	202,208	129,951
Cost of goods sold	650,311	0	0
Depreciation	851	60,004	61,240
Total Operating Expenses	831,306	353,417	283,058
Operating Income (Loss)	6,171	118,109	155,275
Non-operating Revenue (Expense)			
Interest earned	0	4,557	2,714
Interest expense	0	(19,020)	(28,684)
Gain on disposal of capital assets	0	23,824	25,824
Total Non-operating Revenue (Expense)	0	9,361	(146)
Income (Loss) before Transfers	6,171	127,470	155,129
Transfers-in	0	0	0
Change in Net Assets	6,171	127,470	155,129
NET ASSETS, BEGINNING	447,424	1,830,424	1,655,816
NET ASSETS, ENDING	\$453,595	\$1,957,894	\$1,810,945

The accompanying notes to financial statements are an
integral part of this statement.

Airport Fund	Total
\$0	\$909,859
70,862	862,384
0	45,955
70,862	1,818,198
0	283,730
73,622	485,267
0	650,311
29,846	151,941
103,468	1,571,249
(32,606)	246,949
0	7,271
0	(47,704)
0	49,648
0	9,215
(32,606)	256,164
25,000	25,000
(7,606)	281,164
411,163	4,344,827
\$403,557	\$4,625,991

CITY OF CANTON
STATEMENT OF CASH FLOWS-PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	ENTERPRISE FUNDS		
	Liquor Fund	Water Fund	Sewer Fund
Cash Flows from Operating Activities:			
Receipts from customers	\$827,273	\$469,785	\$440,944
Receipts for interfund services	0	1,632	1,068
Payments to suppliers	(705,581)	(167,536)	(77,427)
Payments to employees	(99,730)	(99,737)	(93,054)
Payments for interfund services	(19,802)	(31,500)	(31,500)
Net Cash Provided by Operating Activities	2,160	172,644	240,031
Cash Flows from Noncapital Activities:			
Operating transfers	0	0	0
Interfund loans	3,835	0	0
Cash Flows from Capital and Related Financing Activities:			
Purchase of capital assets	0	(106,760)	(98,341)
Principal paid on capital debt	0	(32,881)	(83,859)
Interest paid on capital debt	0	(19,020)	(28,684)
Sale of capital assets	0	29,403	29,403
Cash Flows from Investing Activities:			
Cash received from interest	0	4,557	2,714
Redemption of investments	0	187	373
Net Increase (Decrease) in Cash and Cash Equivalents	5,995	48,130	61,637
Cash and Cash Equivalents Beginning of Year	424,046	455,238	764,247
Cash and Cash Equivalents End of Year	\$430,041	\$503,368	\$825,884
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating Income (loss)	\$6,171	\$118,109	\$155,275
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation expense	851	60,004	61,240
Changes in Assets and Liabilities:			
Inventories	(2,684)	6,976	20,645
Receivables	(10,204)	(772)	3,679
Accounts payable	7,098	(3,804)	379
Accrued wages	928	(8,532)	(1,187)
Deposits	0	663	0
Net Cash Provided by Operating Activities	\$2,160	\$172,644	\$240,031
Non Cash Activities:			
Loss on disposal of capital assets	\$0	(\$5,579)	(\$3,579)

The accompanying notes to financial statements are an
integral part of this statement.

Airport Fund	Total
\$71,032	\$1,809,034
0	2,700
(72,160)	(1,022,704)
0	(292,521)
(185)	(82,987)
(1,313)	413,522
25,000	25,000
(3,835)	0
0	(205,101)
0	(116,740)
0	(47,704)
0	58,806
0	7,271
0	560
19,852	135,614
0	1,643,531
<u>\$19,852</u>	<u>\$1,779,145</u>
(\$32,606)	\$246,949
29,846	151,941
1,342	26,279
170	(7,127)
(65)	3,608
0	(8,791)
0	663
<u>(\$1,313)</u>	<u>\$413,522</u>
<u>\$0</u>	<u>(\$9,158)</u>

CITY OF CANTON
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Financial Reporting Entity:

The reporting entity of the City of Canton consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

A component unit of the City of Canton will have the following characteristics:

1. The voting majority of the unit's board is appointed by the City Council; and,
2. The City Council is able to impose its will on the unit; or
3. The unit has the ability to provide specific financial benefits to or impose specific financial burdens on the City of Canton.
4. The unit will also be considered a component unit if it is fiscally dependent upon the City of Canton.

Even though the Canton Housing and Redevelopment Commission is a separate legal entity, it meets the above criteria and is considered a component unit of the City of Canton.

CITY OF CANTON
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial statements for Canton Housing and Redevelopment Commission are on file at:

Canton Housing and Redevelopment Commission
903 West Fifth
Canton, South Dakota 57013

b. Basis of Presentation:

Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the reporting entity as a whole (the City). They include all funds of the reporting entity except fiduciary funds. The statements distinguish between the *governmental and business-type*. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities.

Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

CITY OF CANTON
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the financial reporting entity are described below:

Governmental Funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be a major fund.

CITY OF CANTON
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations or other governments or major capital projects) that are legally restricted to expenditures for specified purposes.

Library Fund - to account for library contributions, fines and other revenues and related expenditures. This is not a major fund.

Proprietary Funds:

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The enterprise funds do not apply any Financial Accounting Standards Board (FASB) Statements and interpretation issued after November 30, 1989.

Liquor Fund - a fund used to record financial transactions related to liquor operations. This fund is financed by user charges. This is a major fund.

Water Fund - a fund used to record financial transactions related to water utility operations. This fund is financed by user charges and grants. This is a major fund.

CITY OF CANTON
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Sewer Fund - a fund used to record financial transactions related to sewer operations. This fund is financed by user charges. This is a major fund.

Airport Fund - a fund used to record financial transaction related to airport operations. This fund is financed by user charges. This is a major fund.

b. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental fund types, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary funds.

CITY OF CANTON
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City of Canton, the length of that cycle is 30 days. The revenues which are accrued at December 31, 2008 are sales tax, state shared revenues and miscellaneous other revenues.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principle and interest on general long-term debt which are recognized when due.

CITY OF CANTON
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All proprietary funds and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

c. Interfund Eliminations and Reclassifications:

Government-wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statement have been eliminated or reclassified, as follows.

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as internal receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.
2. In order to minimize the doubling-up effect on internal service fund activity, certain "centralized expenses" including an administrative overhead component, are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department or fund. When expenses are charged, in this manner, expense reductions occur in the General Fund, so that expenses are reported only in the function to which they relate.

Fund Financial Statements:

Noncurrent portions of long-term interfund receivables (reported in "advance to" asset accounts) are equally offset by a fund balance reserve account which indicates

CITY OF CANTON
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

that they do not constitute "available spendable resources" since they are not a component of net current assets. Current portions of interfund receivables (reported in "Due from" asset accounts) are considered "available spendable resources".

e. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statement

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

The total December 31, 2008 balance of governmental activities capital assets includes approximately 10 percent for which the costs were determined by estimates of the original costs. The total December 31, 2008 balance of business-type capital assets includes about

CITY OF CANTON
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

10 percent for which the costs were determined by estimation of the original cost. These estimated original costs were established by reviewing applicable historical costs of similar items and basing the estimations thereon.

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalk, drainage systems and lighting systems acquired prior to January 1, 2004, were not required to be capitalized by the City. Infrastructure assets acquired since January 1, 2004 are recorded at cost, and classified as "Improvements other than Buildings".

For governmental activities Capital Assets, construction-period interest is not capitalized, in accordance with USGAAP, while for capital assets used in business-type activities/proprietary fund's operations, construction period interest is capitalized in accordance with USGAAP.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities with net capital assets reflected in the Statement of Net Assets. Accumulated depreciation is reported on the government-wide Statement of Net Assets and on each proprietary fund's Statement of Net Assets/Balance Sheet.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	ALL	-	-
Buildings	50,000	Straight-line	25-75 years

CITY OF CANTON
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Improvements	25,000	Straight-line	10-30 years
Machinery and Equipment	5,000	Straight-line	5-50 years

Land, an inexhaustible capital asset, is not depreciated.

f. Long-term Liabilities:

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist primarily of revenue bonds payable, capital leases payable and compensated absences.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principle and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

g. Cash Flows and Cash Equivalents:

The City pools the cash resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of their cash resources on demand. Accordingly, each proprietary fund's equity in the cash management pool is considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows.

CITY OF CANTON
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Program Revenues:

Program revenues derive directly from the program itself or from parties other than the City's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows.

1. Charges for services - These arise from charges to customers, applicants or others who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for the acquisition of capital assets for use in a particular program.

i. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities or investing activities are not reported as components of operating revenues or expenses.

j. Equity Classifications:

Government-wide Statements:

Equity is classified as net assets and is displayed in three components:

CITY OF CANTON
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1. Invested in capital assets, net of related debt - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balance of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Reserved" and "Unreserved" components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity is reported as net assets held in trust for other purposes.

Application of Net Assets:

It is the City's policy to first use restricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below.

CITY OF CANTON
NOTES TO FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

Deposits - The City deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1, and 9-22-6.2, and may be in the form of demand or time deposits.

Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letter of credit issued by Federal Home Loan Banks accompanied by written evidence of that banks public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments - In general, SDCL 4-5-6 permits municipal funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Credit Risk - State law limits investments for the City, as discussed above. The City has no investment policy that would further limit investment choices.

As of December 31, 2008 the City had no investments other than certificates of deposit.

CITY OF CANTON
NOTES TO FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK (continued)

Custodial Credit Risk - Deposits - The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2008, none of the City deposits in financial institutions were exposed to custodial credit risk.

Custodial Credit Risk - Investments - The risk that, in the event of the counterparty to a transaction, the City will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk - The City places no limit on the amount that may be invested in any one issuer. 100 percent of the City's investments are in an external investment pool.

Interest Rate Risk - The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Assignment of Investment Income - State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City's policy is to credit all income from investments to the fund making the investment.

3. DEFERRED REVENUE

Receivables, such as taxes receivable, may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but which revenue recognition criteria have not been met.

**CITY OF CANTON
NOTES TO FINANCIAL STATEMENTS**

4. INVENTORY

Inventory in the General Fund consists of expendable supplies held for consumption. Supply inventories are recorded at cost.

Inventory acquired for resale or for supplies in the proprietary funds are recorded as an asset when acquired. The consumption of inventories is charged to expense as it is consumed. Inventories held for resale are recorded at the lower of cost or market, on the first-in, first-out cost flow assumption.

Government-wide Financial Statements:

In the government-wide financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed.

Fund Financial Statements:

In the fund financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed. Material supply inventories are off-set by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

5. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the two years ended December 31, 2008 follows:

	Balance			Balance
	<u>1/1/08</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/08</u>
Governmental Activities:				
Capital Assets				
Not being				
Depreciated				
Land	\$ 304,666	\$ -	-	\$ 304,666

CITY OF CANTON
NOTES TO FINANCIAL STATEMENTS

5. CHANGES IN CAPITAL ASSETS (continued)

	Balance 1/1/08	Additions	Deletions	Balance 12/31/08
Capital Assets being Depreciated				
Buildings	\$1,966,706	\$ -	\$ -	\$1,966,706
Improvements	594,221	32,456	-	626,677
Equipment	1,575,369	218,211	216,307	1,577,273
Totals	<u>4,136,296</u>	<u>250,667</u>	<u>216,307</u>	<u>4,170,656</u>
Less accumulated Depreciation for:				
Building	401,516	39,370	-	440,886
Improvements	140,197	11,844	-	152,041
Equipment	896,201	84,736	119,750	861,187
Total	<u>1,437,914</u>	<u>135,950</u>	<u>119,750</u>	<u>1,454,114</u>
Total Capital Assets being Depreciated- Net	<u>2,698,382</u>	<u>114,717</u>	<u>96,557</u>	<u>2,716,542</u>
Governmental Activity Capital Assets Net	<u>\$3,003,048</u>	<u>\$ 114,717</u>	<u>\$ 96,557</u>	<u>\$3,021,208</u>

Depreciation expense was charged to functions as follows:

General Government	\$ 13,291
Public Safety	40,417
Public Works	43,806
Culture and Recreation	<u>38,436</u>
	<u>\$135,950</u>

**CITY OF CANTON
NOTES TO FINANCIAL STATEMENTS**

5. CHANGES IN CAPITAL ASSETS (continued)

	Balance 1/1/08	Additions	Deletions	Balance 12/31/08
Business-type Activities:				
Capital Assets not being Depreciated:				
Land	\$ 153,216	\$ -	\$ -	\$ 153,216
Construction-in- Progress	359,462	-	359,462	-
Total Capital Assets not being depreciated	512,678	-	359,462	153,216
Capital Assets being Depreciated:				
Buildings	140,048	-	-	140,048
Improvements	5,145,624	465,641	-	5,611,265
Equipment	399,790	-	54,176	345,614
Totals	5,685,462	465,641	54,176	6,096,927
Less accumulated Depreciation for:				
Building	55,034	2,947	-	57,981
Improvements	2,124,660	127,820	-	2,252,480
Equipment	136,474	21,174	45,018	112,630
Total	2,316,168	151,941	45,018	2,423,091
Total Capital Assets Being Depreciated, Net	3,369,294	313,700	9,158	3,673,836
Business-type Activity Capital Assets Net	\$3,881,972	\$ 313,700	\$ 368,620	\$3,827,052

CITY OF CANTON
NOTES TO FINANCIAL STATEMENTS

5. CHANGES IN CAPITAL ASSETS (continued)

Depreciation expense was charged to functions as follows:

Liquor	\$ 851
Water	60,004
Sewer	61,240
Airport	<u>29,846</u>
	<u>\$151,941</u>

6. LONG-TERM DEBT

A summary of changes in long-term debt follows:

	<u>Capital Leases</u>	<u>Compensated Absences</u>	<u>Totals</u>
Governmental Activities:			
Debt Payable, January 1, 2008	\$ -	\$ 58,035	\$ 58,035
Increases	9,505	64,866	74,371
Decreases	<u>(317)</u>	<u>(29,018)</u>	<u>(29,335)</u>
Debt payable, December 31, 2008	<u>\$ 9,188</u>	<u>\$ 93,883</u>	<u>\$ 103,071</u>
Due within One Year	<u>\$ 1,901</u>	<u>\$ 46,982</u>	<u>\$ 48,883</u>

Business-type Activities:

	<u>Other</u>	<u>Revenue</u>	<u>Absences</u>	<u>Total</u>
Debt Payable, January 1, 2008	\$330,000	\$1,013,958	\$ 46,092	\$1,390,050
Increases	-	-	9,346	9,346

CITY OF CANTON
NOTES TO FINANCIAL STATEMENTS

6. LONG-TERM DEBT (continued)

	<u>Other</u>	<u>Revenue</u>	<u>Absences</u>	<u>Total</u>
Decreases	<u>\$ (40,000)</u>	<u>\$ (76,740)</u>	<u>\$ (23,046)</u>	<u>\$ (139,786)</u>
Debt payable, December 31, 2008	<u>\$290,000</u>	<u>\$ 937,218</u>	<u>\$ 32,392</u>	<u>\$1,259,610</u>
Due within One Year	<u>\$ 50,000</u>	<u>\$ 44,528</u>	<u>\$ 16,196</u>	<u>\$ 110,724</u>
Debt payable at December 31, 2008 is comprised of the following:				

Governmental Activities:

Financing (Capital Acquisition) Leases:

Copier, due in monthly payments of \$192, including 4% interest, due in 2013.

Payments are made by the General Fund \$ 9,188

The purchase price at the commencement of the financing (capital acquisition) lease was:

Principal	\$ 9,505
Interest	<u>2,015</u>
	<u>\$11,520</u>

Compensated Absences:

Vested sick leave payable, payable as used or on termination. Payments to be made from the General Fund

\$ 93,835

Total Governmental Activities

\$ 103,071

CITY OF CANTON
NOTES TO FINANCIAL STATEMENTS

6. LONG-TERM DEBT (continued)

Business-type Activities:

Drinking Water #1, maturing in 2024 with an interest rate of 3.5%. The payments are made from the Water Fund	\$ 426,033
Clean Water #2, maturing in 2024 with an interest rate of 3.5%. The payments are made from the Sewer Fund	511,185
1998 Certificates of Participation, matures 1/01/2019, interest rates of 4% to 5.5%. Retired 1/3 by the Water Fund and 2/3 by the Sewer Fund	290,000
Accrued Leave, payable by the Liquor, Water and Sewer Fund	<u>32,392</u>
Total Business-type Activities	<u>\$1,259,610</u>

The annual requirements to amortize all debt outstanding as of December 31, 2008, excluding compensated absences is as follows:

Annual Requirements to Amortize Long-term Debt
December 31, 2008

Governmental Activities:

Year Ending December 31,	Capital Lease Principal	Interest
2009	\$ 1,901	\$ 403
2010	1,901	403
2011	1,901	403
2012	1,901	403
2013	<u>1,584</u>	<u>336</u>
Total	<u>\$ 9,188</u>	<u>\$ 1,948</u>

CITY OF CANTON
NOTES TO FINANCIAL STATEMENTS

6. LONG-TERM DEBT (continued)

Business-type Activities:

Year Ending December 31,	Certificate of Participation		SRF Loans		Total	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 50,000	\$11,880	\$ 44,528	\$ 32,223	\$ 94,528	\$ 44,103
2010	50,000	9,930	46,106	30,644	96,106	40,574
2011	50,000	7,980	47,741	29,008	97,741	36,988
2012	55,000	5,880	49,434	27,315	104,434	33,195
2013	85,000	3,570	51,187	25,562	136,187	29,132
2014-2018	-	-	284,487	99,262	284,487	99,262
2019-2023	-	-	338,636	45,112	338,636	45,112
2024-2027	-	-	75,099	1,651	75,099	1,651
Total	<u>\$290,000</u>	<u>\$39,240</u>	<u>\$ 937,218</u>	<u>\$290,777</u>	<u>\$1,227,218</u>	<u>\$330,017</u>

7. PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments on or before April 30 and October 31 of the following year.

The City is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City.

8. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

During the year ended December 31, 2008 the City managed its risk as follows:

CITY OF CANTON
NOTES TO FINANCIAL STATEMENTS

8. RISK MANAGEMENT (continued)

Employee Health Insurance:

The City purchases health insurance for its employees from a commercial carrier. The policy carries a \$500 deductible. Settled claims resulting from these risks have not exceeded the coverage over the past three years.

Workmen's Compensation:

The City joined the South Dakota Municipal League Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$325,000 of any claim per individual. The pool has reinsurance which covers up to \$2,000,000 per individual per incident.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage for the past three years.

Liability:

The City joined the South Dakota Public Assurance Alliance, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local

CITY OF CANTON
NOTES TO FINANCIAL STATEMENTS

8. RISK MANAGEMENT (continued)

government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage for automobile and general liability.

The agreement with the SDPPA provides that the above coverages will be provided to a \$5,000,000 limit. Member premiums are used by the Pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 to the

upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The City would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis:

End of the City's first full year	50%
End of the City's second full year	60%
End of the City's third full year	70%
End of the City's fourth full year	80%
End of the City's fifth full year	90%
End of the City's sixth full year and thereafter	100%

As of December 31, 2008, the City has a vested balance in the cumulative reserve fund of \$67,416.

CITY OF CANTON
NOTES TO FINANCIAL STATEMENTS

8. RISK MANAGEMENT (continued)

The City carries a \$500 deductible for official's liability coverage and \$2,000 law enforcement liabilities.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage for the past three years.

Unemployment Benefits:

The City provides coverage for claims for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

9. RETIREMENT PLAN

All employees, except firemen, part-time or seasonal, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivors benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P. O. Box 1098, Pierre, SD 57501-1098 or calling (605) 773-3731.

General employees are required by state statute to contribute 6% of their salary to the plan, while public safety and judicial employees contribute at 8% and 9%. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2008, 2007 and 2006 were \$49,917, \$47,582 and \$43,557 respectively, equal to the required contribution.

CITY OF CANTON
NOTES TO FINANCIAL STATEMENTS

10. RESTRICTED NET ASSETS

The following table shows the net assets restricted for other purposes on the Statement of Net Assets:

<u>Restriction</u>	<u>Restricted by</u>	<u>Amount</u>
Debt Service	Debt covenants	\$ 44,500
Insurance	Contract agreement	<u>67,416</u>
		<u>\$111,916</u>

11. INTERFUND TRANSFERS

During 2008 the City transferred \$25,000 from the General Fund to the Airport Fund to subsidize its operations.

12. RELATED ORGANIZATIONS

The City of Canton's library benefits from gifts from the "Canton City Library Foundation, Inc.," a non-profit corporation.

The City of Canton received a donation of a building from the "Canton Depot Foundation, Inc." valued at approximately \$172,000. The City continues to receive the benefit of on going maintenance of this building fro the "Canton Depot Foundation, Inc."

GASB Statement No. 39 requirements to report these entities as component units do not apply because:

- a. The economic resources received and held by the two "Foundations" are not necessarily held for the direct benefit of the City and may be directed elsewhere at the discretion of the directors.
- b. The City does not have the ability to access the economic resources owned by the "Foundations".
- c. Any resources received by the City from these entities are not significant.

**CITY OF CANTON
SCHEDULE OF PRIOR AUDIT FINDINGS**

FINDING NUMBER 2007-01 and 2006-01:

A lack of proper segregation of duties is the present situation in the City's accounting department.

This finding was first reported in 1989.

CURRENT STATUS:

The condition remains the same as of December 31, 2008.

**CITY OF CANTON
SCHEDULE OF CURRENT AUDIT FINDINGS**

FINDING NUMBER 2008-01:

CONDITION FOUND:

A lack of proper segregation of duties is the present situation in the City's accounting department.

CRITERIA:

Duties should be segregated so the same employees who handle cash do not record cash transactions nor have general ledger access. Bank reconciliation should be performed by personnel not involved with the check writing process. Other financial and accounting functions should be done by separate people.

CAUSE AND EFFECT:

Management of the City has determined the present size of the staff in the Finance Department. The effect of this decision precludes an adequate segregation of duties.

RECOMMENDATION:

The Mayor and Council Members should always be aware of this weakness as they review and approve transactions of the City and resulting financial reports. Compensating controls should be implemented whenever and wherever possible.

CITY RESPONSE:

The City agrees with this finding, but believes that the cost of hiring additional staff to segregate the duties exceeds the benefits to be derived from such action. Management intends to maintain a constant awareness of this weakness and will study each person's duties to ascertain where mitigating controls may be implemented.